



## ***Facebook Beacon: Cool Feature or an Invasion of Privacy?***

### **TEACHING NOTE**

#### **Purpose of the Case Study**

- To highlight the conflict that arises when a company based on social networking attempts to balance its users' rights and privacy with the need to generate revenues
- To encourage analysis of a business model based on the sharing of information between friends, family and coworkers to increase the efficiency of communication
- To demonstrate how a company might respond upon receiving significant pushback from its users
- To provide an example of how a company without a chief communications officer handles both public and media relations
- To encourage discussion regarding the level of responsibility social networking websites have to protect the rights and privacy of users.

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This case was prepared by Research Assistants William R. Borchers and Brett W. Lilley, under the direction of James S. O'Rourke, Teaching Professor of Management, as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. Information was gathered from corporate as well as public sources.

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## **Identify the Business Problem**

On November 6, 2007, Facebook released a feature called Beacon that would allow users to share their online activities with their friends. Those activities primarily included online purchases and surveys. Although Beacon was one way in which Facebook could generate revenues through advertising partnerships, Facebook explained that its intentions were to help people better share information with others. Its users responded both quickly and negatively, believing that Beacon was a complete invasion of their privacy.

This situation, although certainly unique in many ways, was quite similar to the situation brought about by the introduction of News Feed and Mini-Feed. News Feed and Mini-Feed were intended to centralize information on Facebook in order to, like Beacon, better share information between friends and increase the efficiency of communication. Facebook responded to the outrage over News Feed and Mini-Feed by posting in the blog on its website and eventually modifying the feature's privacy settings. Even though Facebook appeared to have recovered from the News Feed and Mini-Feed situation, it was just one year later when they stumbled with the introduction of Beacon.

As outlined in the (B) Case, Facebook once again responded to its users through the blog on its website and by adjusting the privacy settings of Beacon. It also responded by welcoming an interview by CBS News with CEO Mark Zuckerberg. The combination of these responses appears to have suppressed the worst of the concerns. However, there is still the question of whether Facebook could either avoid or better handle similar issues. Some may assume that Facebook has learned its lesson from Beacon, but then some may have had the same assumption following News Feed and Mini-Feed. As Facebook progresses into the future, it should be apparent whether privacy issues will always be as complicated and serve as a source of complaints from its users.

## **Identifying the Critical Stakeholders**

The decision by Facebook to release Beacon has affected a number of stakeholders. It is imperative that Facebook understand which parties have been affected. In addition, they must also understand what the impact on each group is and how each specific issue can be addressed. What follows is a summary of the key stakeholders and their critical issues.

**Users.** As a social network, Facebook depends on both the sheer number of users it attracts and the volume of activity generated by those same users. Without an active user base, revenues from advertising partners would be hard to come by. In order to continue attracting users and keep them active, Facebook must be seen as a safe and private social utility. The user disapproval received by the release of Beacon suggests that users are concerned for their safety and privacy. First, Facebook must discover which aspects of Beacon cause concern for its users. Then, the company must address the aspects which threaten user participation. The effects of Beacon can vary greatly from user to user. Many users may be completely unaware of its

existence. Some may be annoyed by information which is being shared among friends, while others are offended. There is even the possibility that some shared information may involve ramifications leading to more serious matters. The point is that much of the information shared by Beacon could discredit the perceived safety and privacy of Facebook. Even worse, dissatisfied users could pursue legal actions.

**Parents.** When Facebook was first established, this group of stakeholders would not have existed. By allowing access to both high school students and anybody 13 years or older, parents of users indirectly became a part of Facebook. As use of the Internet has increased, so has the general public's concern for safety and privacy. Just as parents attempt to monitor and regulate the television habits of their children, parents also regulate and monitor Internet habits as well. Increased attention continues to be drawn to this subject matter. Therefore, if parents are unsatisfied with what they read, hear, and know about Facebook, the participation from Facebook's youngest users may suffer.

**Advertising Partners.** Since Facebook is free of charge to users, it initially used funds generated by outsiders to fuel its business needs. Just like all other businesses, though, there must eventually be a way in which revenues can be generated to establish a sustainable business model. As time progressed, many began to recognize and accept both the popularity and functionality of Facebook. The company saw this as its opportunity to capitalize on advertising revenues by offering advertising space to other firms and brands. With the release of Beacon, Facebook's advertising partners are indirectly tied to the outrage displayed by thousands of users. Facebook must determine if their advertising partners are concerned with the reaction of its users. Either way, any changes to Beacon must first be clearly communicated with advertising partners so expectations of the feature are understood by both sides. Any concerned advertising partners must be convinced of how the issues will be resolved and reassured that continued participation in Beacon will be a wise business decision.

**Shareholders.** As of February 2008, a handful of investors had contributed nearly US\$350 million to finance the operations of Facebook. Those investors include Peter Thiel (co-founder of PayPal), Accel Partners, Greylock Partners, Meritech Capital Partners, Microsoft, and Li Ka-shing. The company only has a few dozen individual shareholders, but many expect the use of options and restricted stock to increase in the near future. Recent acquisitions by Microsoft and Li Ka-shing value Facebook at US\$15 billion. With all of this in mind, it is simple to see the importance that the success of Facebook means to its shareholders. The company is more valuable than it has ever been, but must begin to establish a reliable source of income. On the one hand, Beacon could be the feature which catapults them to the next level. On the other hand, misreading the effect of Beacon on its users could adversely affect the future of Facebook.

**Employees.** As the employer of approximately 450 people, Facebook must find a way to be a dependable source of employment. It is expected that revenues will not only be reinvested to promote growth, but that employees will also be reasonably compensated. Due to its unique

model, understanding how to generate revenues through Facebook is a continuous learning experience. If Mr. Zuckerberg does not figure out how to generate revenues which support the costs of the services he provides, Facebook may cease to exist. Therefore, it is crucial to the employees of Facebook that Beacon or other attempts at advertising revenues become less controversial to users. Clearly, employment opportunities elsewhere may exist, but it is safe to assume that the employees currently working at Facebook are there because they want to be there. With that said, it is in Facebook's best interest to handle Beacon properly so that employees' interests are protected.

**Competitors: Google, Yahoo, and MySpace.** At first glance, MySpace appears to be Facebook's principal competition. However, as Facebook continues to develop, it is apparent that tasks commonly completed through Google or Yahoo could soon be more efficiently completed through Facebook. All three of these competitors are continuously searching for ways in which more revenues can be generated. By carefully observing how Facebook handles this situation, its competitors may learn something as well. Properly handling Beacon may propel Facebook to new levels of success. On the other hand, mishandling Beacon may make Facebook more susceptible to an acquisition or create some breathing room for its competitors.

**Media.** This case has already attracted significant amounts of media attention and will continue to attract attention for multiple reasons. First, there is currently an honest concern for the privacy of social networks. Secondly, Facebook is a highly specialized business model that is still rapidly developing. Finally, Mark Zuckerberg, who is the sole means of communication for Facebook, proves to be both an unpredictable and intriguing CEO. The media will continue to cover the growth of this exciting company so its executives must understand how media attention should best be handled.

### **Most Desirable Outcomes**

- Avoid serious user pushback brought upon by privacy concerns.
- Continue growth of the user base while still protecting the rights and privacy of those users
- Continue to generate revenues which allow Facebook to grow at its desired pace
- Continue to expand the services offered by Facebook through additional features and applications
- Strengthen the public opinion of Facebook through the satisfaction and approval of its users
- Successfully handle media relations as Facebook encounters additional success and problems.

## Possible Solutions

**Do Not Change Beacon.** This may seem like a lazy or extremely bold approach to take, but some may believe this is a feasible solution for Facebook. The popularity and desire to be on Facebook may be strong enough to ignore the pushback from several thousand users. This, indeed, appears to be a risky decision since it disregards the opinions of the people their business depends on. If it proves to be a successful approach, it would certainly set the tone for future actions.

**Eliminate Beacon.** This decision would be the easiest, but also the most demoralizing decision for Facebook to make. Eliminating Beacon would probably satisfy most of the users who initially complained. However, it would be hard to judge how many users enjoyed the feature, but went unnoticed because they were not publicly expressing their opinion of the feature. Also, with the removal of Beacon, it would appear as if Facebook actually had little control over what services they offered. Instead, the users would come across as being the ones in charge of deciding what Facebook is and what it will be. This decision would also eliminate all of the revenues expected to come in from the feature.

**Increase Privacy Settings of Beacon.** By increasing the privacy settings of Beacon, Facebook would be demonstrating its understanding of user concerns and its desire to create a product which its users most desire. Unfortunately for Facebook, this will most likely decrease the potential amount of advertising revenues realized from Beacon. At the same time, though, Facebook would be taking a step in the right direction in order to meet its financial needs. Such a decision would allow each user to decide how Beacon would affect them. Even though this would ultimately leave the user in control, the feature should still prosper if it is genuinely a useful feature.

**Introduce a CCO.** In order to address similar situations and a wide array of situations in the future, Facebook could introduce a CCO. Whether using an experienced insider or outsider, establishing a CCO position would allow a particular group or individual to focus on the interaction of Facebook with the public and media. This does not mean Mark Zuckerberg would be eliminated as the face of Facebook. Rather, it would help him in analyzing different ways in which messages can be formulated and delivered. The point of such a decision would be to enhance the perception of Facebook at all times.

**Contact Users Through Homepage.** When accessing their profile, each user is initially brought to their individual homepage. In hopes of better communicating its message, Facebook could use this homepage to inform users of the current situation and continually update users as things progress. Blog postings which were left on the Facebook website may have been in a location rarely accessed by a user. Using someone's profile as a form of notification could potentially result in more complaints from those who were previously unaware of the situation. However, this form of communication would help Facebook in attempting to control the portrayal of the situation rather than outside sources.

## Applying the Page Principles

The practice of corporate public relations can take on a seemingly endless number of forms. However, the framework of today's practice of corporate public relations can be traced back to Arthur W. Page. As Vice President of Public Relations at AT&T from 1927 to 1946, Page understood that "all business in a democratic society begins with public permission and exists by public approval." Through this understanding he came to believe in and follow a set of principles, which would later be deemed the "Page Principles" by the Arthur Page Society. The following is an analysis of Facebook and the release of Beacon based on the "Page Principles." Hopefully, it is these principles that will allow the actions of Facebook to be effectively evaluated.

**Tell the Truth.** In this case, it is not a lack of truth that appears to have thrown Facebook users into a frenzy. Rather, a lack of full disclosure seems to be a major concern with users. User reactions suggest, and Mark Zuckerberg even admits to poorly handling the release, that Beacon caught them off guard. With the December 5, 2007 blog post, Facebook attempted to inform the public of Beacon's intended use and how it could best be utilized. This type of communication with the public illustrates Facebook's desire to have the situation accurately portrayed. However, it is possible that other sources of media could have been used to release the truth to as many users and concerned observers as possible.

**Prove it with Action.** Executives and management can talk all day about what they think they should do or what they are going to do, but unless something is actually done the public's perception will rarely be shaped in a positive manner. It may be debatable whether or not Facebook responded with action quickly enough. However, Facebook certainly did not waste time talking about the issues at hand. As a matter of fact, they made a significant change in turning Beacon from an opt-out feature to an opt-in feature and even gave users the ability to completely turn off the feature. Most importantly, this change was made during the week leading up to the December 5, 2007 blog post. By making changes and adjusting to their mistakes before addressing the public, Facebook left no time for the public to critique their decisions and instead proved to the public that something would be (and was) done.

**Listen to the Customer.** As stated on their website, Facebook is designed to connect people with those around them. The greater the number of Facebook users, the more effectively Facebook will be able to meet this goal. Therefore, it is imperative that Facebook listen to its users. As online social utilities become more popular, users will continue to have more of a choice in where they will connect with others. Also, as awareness for online privacy continues to rise, users will become even more hesitant to join an online community known to have a lack of respect for privacy. Facebook is fortunate to have a user base which does not hesitate to express their opinions. With such a proactive user base, Facebook is reasonably able to gather valuable feedback. As illustrated in the case, Facebook quickly processed the negative feedback they received and altered the offerings of their website to better satisfy its users.

**Manage for Tomorrow.** By managing for tomorrow, an organization tries to stay one step ahead of its customers and the public. As Facebook demonstrated, an outburst from users could potentially generate negative publicity. It was also important that Facebook find a remedy to this situation before each and every advertising partner bailed in order to save their own reputation. For all we know, Facebook may have been prepared for or at least considered such a reaction from its users. By doing so they may have already had a plan in place to not only correct the problem, but in a timely manner as well. At the same time, it is possible Facebook didn't anticipate this release going anything like it did. Either way, by keeping such an event from breaking them down, Facebook will be able to continue on into the future and prepare for the long-term by utilizing the appropriate opportunities.

**Conduct Public Relations as if the Entire Company Depends on It.** Approximately one month after the release of Beacon, Zuckerberg addressed the apparent concerns in both the Facebook blog and in the form of a press release. On one hand, it is comforting to see the CEO of Facebook personally addressing the users' concerns. On the other hand, however, it may be concerning to others that there doesn't appear to be a strong dedication to public relations. For instance, it wasn't until March of 2008 that Facebook announced Sheryl Sandberg as COO and responsible for communications. As Facebook continues to grow, it would be expected that there will be a greater need for enhanced communications with the public. Currently, though, Facebook appears to be taking a very relaxed approach to public relations. Such an approach makes it appear they are doing just enough to get by versus acting as if the entire company depends on it.

**Remain Calm, Patient, and Good-Humored.** Since its inception, it has been evident that Facebook is a light-hearted and organization. Just as many other online platforms have attracted customers and users through quirky humor and creativity, Facebook has also been portrayed in much the same way. The responses released by Zuckerberg have not only demonstrated that everybody involved needs to relax, but they have also demonstrated that with a little patience a suitable solution will soon be delivered. Not only does this attitude closely fit their user base, but it also illustrates the confidence and beliefs of the organization as a whole.

## **Discussion Questions**

### *Retrospective Questions*

1. Did Facebook compromise its commitment to user rights and privacy with the release of Beacon?
2. What difference, if any, was there between the introduction of News Feed/Mini-Feed and Beacon?
3. Did Facebook do a sufficient job in introducing and explaining Beacon to its users?

4. What role, if any, did being such a young and successful company play in the actions of the company and the reactions of its users?

*Prospective Questions*

1. Is there a need for Facebook to deliver a message? If so, what is the message, to whom is the message delivered, who is the message delivered by, and how is the message delivered?
2. Should modifications be made to Beacon? If so, what changes should be made and how should they be made?
3. Should Facebook be concerned about preventing a similar situation in the future? If so, how can they prevent similar situations from occurring?
4. Does Facebook need to establish a communications department or an executive communication position?